

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-03-0437
ARIZONA PUBLIC SERVICE COMPANY FOR)
A HEARING TO DETERMINE THE FAIR)
VALUE OF THE UTILITY PROPERTY OF THE)
COMPANY FOR RATEMAKING PURPOSES,)
TO FIX A JUST AND REASONABLE RATE OF)
RETURN THEREON, TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN, AND FOR APPROVAL OF)
PURCHASED POWER CONTRACT)

DIRECT

TESTIMONY

OF

ERINN ANDREASEN

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 3, 2004

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**EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-03-0437**

Ms Andreasen's testimony is recommending the following:

1. In order for all customer classes to benefit from the recommended overall rate decrease, Staff is recommending that no customer class or subclass be assigned a revenue increase or an increase to rates.
2. Staff recommends that the residential class receive a 4.04 percent revenue decrease, the general service class receive a 13.4 percent revenue decrease, the irrigation class receive a 2.19 percent decrease, and the street lighting and dusk to dawn customer classes receive a 1.1 percent decrease.
3. Within the residential rate class, Staff recommends that ET-1 and ECT-1R should receive average decreases. E-10 and EC-1 should receive less than the average decrease and E-12 should receive an above average decrease.
4. Staff recommends that the categories within the general service rate class should receive decreases to varying degrees. Staff recommends that the medium and extra large general service classes should receive average decreases, the small general service rate class should receive a greater than average decrease, and the large general service class should receive less than half of the average decrease.
5. If revenue requirements result in a rate increase, Staff would recommend that the revenues be allocated across the main customer classes in a more even distribution. However, Staff would recommend that the Commission adopt the proportion identified in this testimony for the intraclass allocation.
6. Staff recommends that APS' proposal to eliminate E-10 and EC-1 be adopted, but EC-1 would be phased out over a one-year timeframe consistent with the phasing out of E-10. In addition, Staff recommends that APS present customers on E-10 and EC-1 with written notice of its intent to cancel these rates and institute a customer education plan to inform customers of alternative rate options.

7. Staff recommends approval and believes that offering additional time-of-use options to APS' customers will provide customers with a greater range of time-of-use benefits and provide benefit to APS by reducing its peak load. In addition, Staff recommends that APS be required to file a report after three years from a decision in this proceeding that evaluates the outcomes of adopting the optional-time periods. The filing should make a recommendation regarding the continuation of the experimental time periods.
8. Staff recommends that APS establish an on and off-peak rate for the winter-billing period on its seasonally differentiated residential and general service time-of-use rates. However, Staff recommends that the winter on and off-peak hours be modified to reflect the hours of actual system peak.
9. Staff recommends that the residential basic services charges remain at current levels or are decreased to reflect cost tracking. In addition, if the revenue requirements adopted provide for a rate increase, APS should not increase any one residential customer service charge by more than 5 percent.
10. Staff recommends that the general service basic services charges remain at current levels. However, if the revenue requirements adopted provide for a significant rate increase, APS should increase its general service basic service charges to bring them closer to cost.
11. Staff recommends that APS establish an on and off-peak energy component for the winter billing period on E-32 TOU. In addition, Staff recommends that the winter on and off-peak hours be modified to reflect the hours of actual system peak.
12. Staff recommends that APS' proposal to remove franchise fees from base rates be adopted and that such fees should be listed as a separate line item on customers' bills.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Erinn Andreasen. I am a Public Utilities Analyst employed by the Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Please describe your educational background and professional experience.

A. In 1999, I graduated summa cum laude from Arizona State University, receiving a Bachelor of Science degree in Agribusiness with a specialization in international business. In 2003, I received a Masters Degree in Business Administration from the University of Phoenix with a specialization in global business. I have worked at the Commission for over three years as an Economist and a Public Utilities Analyst. My current duties include the review and evaluation of applications for electric Certificates of Convenience and Necessity, electric utility special contracts, demand-side management programs, utility tariff filings, and rate design.

Q. What is the scope of your testimony in this proceeding?

A. My testimony will address revenue allocations and rate design proposals based on Staff's revenue requirement and cost of service recommendations. In addition, I will also address general issues related to Arizona Public Service Company's ("APS") rate schedules.

Q. Does your testimony recommend that a specific set of rates be adopted?

A. No. My testimony will identify specific guidelines for the company to follow in structuring its rates. The rates to ultimately be adopted by the Administrative Law Judge and Commission will be influenced by adoption of various considerations to be put forth by Staff, APS, and the intervenors in this proceeding.

REVENUE ALLOCATIONS AND RATE DESIGN

Q. Please identify the change in revenues that Staff is recommending.

A. Based on Staff adjustments to the Test Year, Staff is recommending an overall revenue decrease of \$154.5 million in base revenues. Staff's recommended decrease is approximately an 8.62 percent reduction to revenues from base rates.

Q. Did you rely on the cost of service study as referred to by Staff witness Smith in the development of Staff's recommended revenue allocations?

A. Yes, as a guide. The cost of service study illustrates the degree to which the class rate of return deviates from the system average rate of return. The closer a class rate of return is to the system average the more accurately the class is contributing to its full embedded cost and return on rate base.

Q. Please identify each of the customer classes across which rates are to be spread?

A. APS' cost of service study breaks down its customer classes into five main categories. They are: residential, general service, irrigation, street lighting, and dusk to dawn. Within the residential class, there are categories for each of the five residential rate schedules. Within the general service category, there are subcategories of small ($0 \leq kW < 100$), medium ($100 \leq kW < 1000$), large ($1000 \leq kW < 3000$), and extra large ($kW > 3000$). Certain rate schedules in the general service class such as E-32 may correspond to more than one subclass. For instance, customers in the small, medium, and large general service categories may take service on one rate schedule.

1 **Q. Generally, what did Staff's cost of service study identify about APS' customer**
2 **classes?**

3 A. The cost of service study demonstrated that to varying degrees the residential, street
4 lighting, and dusk to dawn classes are contributing less than their cost, and the general
5 service class is contributing more than its cost and return on rate base.

6
7 The study also identified the differences in the intraclass returns for the general service
8 and residential subclasses. The differentials between the residential subclasses are
9 moderate while the differentials between the general service subclasses are greater.

10
11 **Q. In addition to the cost of service study, what other considerations should be taken**
12 **into account regarding revenue allocations?**

13 A. Some of the key considerations in revenue allocations include: the effect of rate design
14 proposals, the availability of alternative energy options to customer groups, the magnitude
15 of the overall rate change, and customer equity.

16
17 For instance, APS is proposing to eliminate a certain residential rate schedule over time.
18 In order to create an incentive for customer migration, the revenue change to this schedule
19 should establish a price signal that encourages customer migration. In addition, certain
20 types of customers have alternative options to receiving service from APS. These
21 customers can be price sensitive because they have alternatives, which could allow them
22 to adopt alternative energy sources such as natural gas, to self generate, bypass the
23 distribution system, or relocate their operations.

24
25 The magnitude of the overall revenue change and customer equity are also important
26 considerations in the rate allocation process.

1 **Q. In addition to the information provided by the cost of service study, what non-cost**
2 **criteria should also be considered in translating revenues into rates?**

3 A. There are a variety of generally accepted non-cost criteria that are considered in the rate
4 design process. These considerations include the effectiveness in yielding the total
5 revenue requirements, revenue stability for the company, rate continuity for the customer,
6 simplicity and public acceptability, fairness of the rates in apportionment of total cost of
7 service among different rate classes, avoidance of undue discrimination in rate
8 relationships, and efficiency in discouraging the wasteful use of the service.

9
10 **Q. What approach did Staff take toward applying the decrease to APS customer**
11 **classes?**

12 A. In order for all customer classes to benefit from the recommended overall rate decrease,
13 Staff is recommending that no customer class or subclass be allocated a revenue increase
14 or given an increase to rates.

15
16 **Q. Did Staff consider other approaches regarding its rate design proposal?**

17 A. Yes. Staff considered a rate design that reflected each customer class' required
18 contribution to system average rate of return based on Staff's cost of service study.
19 However, designing rates based strictly on cost of service would have led to some
20 customer classes getting rate increases. Staff also explored a rate design that gave an
21 equal percentage decrease across all customer classes. However, this approach ignored
22 the results of the cost of service study. Staff felt that it was important to give each
23 customer class, and each subclass, a rate decrease, yet balance the percentage decreases
24 for each class and subclass with the results of the cost of service study. Therefore, those
25 customer classes who were paying a larger rate of return than the system average will

1 receive a larger rate decrease. Staff's proposed rate design balances cost-based principles
2 with non-cost principles so that all customers benefit from the recommended decrease.

3
4 **Q. How do you recommend that Staff's recommended decrease be distributed among**
5 **APS' customer classes?**

6 A. A summary of Staff's proposed revenue allocations is shown in schedule EAA-1. Staff
7 recommends that the residential class receive a 4.04 percent revenue decrease, the general
8 service class receive a 13.4 percent revenue decrease, the irrigation class receive a 2.19
9 percent decrease, and the street lighting and dusk to dawn customer classes receive a 1.1
10 percent decrease.

11
12 **Q. The cost of service study illustrates that the street lighting and dusk to dawn**
13 **customer classes are contributing a negative rate of return. Why would Staff**
14 **recommend that these classes receive a revenue decrease?**

15 A. Although Staff is recommending a decrease for these classes, the revenue decrease that
16 Staff is supporting is much less than the average decrease. Staff believes that this minimal
17 decrease is equitable in these circumstances. As stated above, Staff is recommending that
18 no customer class or subclass be assigned an increase in rates. Instead of rigidly applying
19 the results of the cost of service study, Staff has used it as a guide, and has also balanced
20 cost-based principles with non-cost principles in determining how to spread the revenue
21 decrease among customer classes.

22
23 **Q. Please explain Staff's recommended intraclass revenue allocations for the residential**
24 **class.**

25 A. Within the residential rate class, ET-1 and ECT-1R should receive average decreases. E-
26 10 and EC-1 should receive less than the average decrease and E-12 should receive an

1 above average decrease. APS has proposed phasing out E-10 over a one-year timeframe
2 and Staff is proposing a similar phase out period for EC-1, which will be addressed later in
3 this testimony. Providing a less than average decreases to EC-1 and E-10 would create an
4 incentive for customers on E-10 and EC-1 to explore other applicable rate options.

5
6 **Q. Please explain Staff's recommended intraclass revenue allocations for the general**
7 **service class.**

8 A. Staff recommends that the categories within the general service rate class should receive
9 decreases to varying degrees. Staff recommends that the medium and extra large general
10 service classes should receive an average decreases, the small general service rate class
11 should receive a greater than average decrease, and the large general service class should
12 receive less than half of the average decrease.

13
14 **Q. If the revenue requirement were to change significantly, would your recommended**
15 **class allocation approach change?**

16 A. While significant changes may call for an alternative approach to the apportionment
17 across the main customer classes, the proportions identified in this testimony for the
18 intraclass revenues would continue to apply.

19
20 For instance, if revenue requirements resulted in a rate increase, Staff would recommend
21 that the revenues be allocated across the main customer classes in a more even
22 distribution. However, Staff would recommend that the Commission adopt the
23 proportions identified in this testimony for the intraclass allocation. For instance, for the
24 general service class, the medium and extra large general service classes would receive
25 average increases, the small general service rate class would receive a less than average

1 increase, and the large general service class would receive greater than half of the average
2 increase.

3
4 **Residential Rate Design**

5 **Q. Please summarize APS' residential rate design proposals.**

6 A. APS is proposing to eliminate frozen rate schedule E-10 after a one-year phase out period,
7 eliminate frozen rate schedule EC-1, eliminate the winter time-of use periods on ET-1 and
8 ECT-1R, introduce two optional on-peak time-of-use periods on ET-1 and ECT-1R,
9 remove an existing summer energy block from E-12, and unbundle each residential rate.
10 APS is not proposing any changes to its low income and medical equipment rates E-3 and
11 E-4.

12
13 **Q. Please summarize APS' proposal to eliminate frozen rate schedules E-10 and EC-1.**

14 A. APS is proposing to eliminate frozen rate schedules E-10 and EC-1 and place the existing
15 customers onto alternative rate options. Customers on E-10 would be placed on schedule
16 E-12 after a one-year phase out period while customers on EC-1 would be transferred to
17 ECT-1R immediately.

18
19 **Q. Does Staff agree with this proposal?**

20 A. Yes, in part. Staff believes that the intention in freezing these rates schedules was to
21 eventually phase them out over time. Customer counts have decreased since these rates
22 were frozen in 1991. At the time E-10 was frozen, approximately 50 percent of residential
23 customers took service on the rate schedule. Since that time, the number of residential
24 customers on E-10 has declined to 11 percent. At the time EC-1 was frozen,
25 approximately 17 percent of residential customers took service on that rate schedule.
26 Since that time, the number of customers on EC-1 has declined to 3 percent.

1 Although Staff agrees that E-10 and EC-1 should be eliminated, Staff believes that
2 customers on EC-1 should also be given a one-year phase out period so that customers on
3 both rate schedules have a similar timeframe to evaluate and choose alternative rate
4 options. In addition, Staff recommends that APS present customers on E-10 and EC-1
5 with written notice of its intent to cancel these rates and institute a customer education
6 plan to inform customers of alternative rate options.

7
8 **Q. Please describe APS' proposed changes to its residential time-of-use tariffs.**

9 A. Schedule ET-1 is a time-of-use tariff that features seasonal billing periods, a basic service
10 charge, and an energy rate. Schedule ECT-1R is a time-of-use tariff that features seasonal
11 billing periods, a basic service charge, and an energy and demand component. On both
12 rate schedules, APS is proposing to eliminate the on-peak and off-peak hours during the
13 winter billing period and replace them with a single energy rate. In addition, APS has
14 introduced two optional summer on-peak time-of use periods on ET-1 and ECT-1R that
15 would be limited to participation by a maximum of 10,000 customers combined for both
16 rate schedules. The experimental on-peak periods proposed would be 7 am to 7 pm and 8
17 am to 8 pm Monday through Friday. APS is not requesting a change to its regular
18 residential on-peak period from 9 am to 9 pm.

19
20 **Q. Does Staff recommend approval of the experimental time-of-use periods proposed by**
21 **APS on ET-1 and ECT-1R?**

22 A. Yes, with one modification. Staff recommends approval and believes that offering
23 additional time-of-use options to APS' customers will provide customers with a greater
24 range of time-of-use benefits and provide benefit to APS by reducing its peak load. In
25 addition, Staff recommends that APS be required to file a report after three years from a
26 decision in this proceeding that evaluates the outcomes of adopting the optional-time

1 periods. The filing should make a recommendation regarding the continuation of the
2 experimental time periods.

3
4 **Q. Does Staff agree that the on-peak and off-peak periods during the winter billing**
5 **period for APS' residential time-of-use schedules should be eliminated?**

6 A. No. Staff believes sending on and off-peak price signals to customers to reduce their load
7 during times of system peak is important to encourage conservation. However, Staff is
8 concerned that the current on-peak winter time period does not directly correspond to
9 APS' hourly on-peak system periods. See attachment EAA-2. APS' load data suggest that
10 the system winter peak occurs between 7 am and 9 am and 7 pm to 10 pm. These types of
11 winter peak periods are similar in other service territories as well. APS' current winter on-
12 peak time period is from 9 am to 9 pm, and is identical to the time period for the summer
13 on-peak period.

14
15 **Q. What does Staff recommend regarding APS' winter on and off-peak time periods?**

16 A. Staff recommends that APS maintain an on and off-peak rate for its winter billing period
17 on its residential time-of use rates. However, Staff recommends that the on and off-peak
18 hours be modified to reflect the hours of actual system peak.

19
20 **Q. Please comment on APS' proposed changes to its residential basic service charges?**

21 A. A summary of the present and proposed basic service charge is presented in schedule
22 EAA-3. APS is proposing to move from a monthly basic service charge to a daily basic
23 service charge and make various changes to the residential basic service charges. APS is
24 proposing to increase its basic service charges on E-10 and E-12, reduce the basic service
25 charge on ET-1 slightly, and make no change to the basic service charge on ECT-1R. The
26 greatest increase is \$5.00 per month or a 66 percent increase on E-12. Under APS'

1 proposal, customers who migrate from E-10 to E-12 and from EC-1 to ECT-1R will also
2 experience a \$5.00 per month increase. Staff does not believe that such a significant
3 increase to the residential basic service charge is reasonable. However, based on Staff's
4 cost of service study, APS is currently charging less than its cost on E-10, E-12, and EC-1,
5 and slightly more than cost on ET-1 and ECT-1R. Therefore, if a rate increase were
6 adopted, Staff would support a somewhat smaller increase on E-10 and E-12.
7

8 **Q. What does Staff recommend regarding the residential basic service charges?**

9 A. Staff is opposed to an increase in the residential basic service charges at this time. Staff
10 recommends that the residential basic services charges remain at current levels or are
11 decreased to reflect cost tracking. In addition, if the revenue requirements adopted
12 provide for a rate increase, APS should not increase E-10 or E-12 or any customer service
13 charge by more than 5 percent.
14

15 **General Service Rate Schedules**

16 **Q. Please summarize APS' General Service rate design proposals.**

17 A. APS is proposing to eliminate experimental time-of-use rates E-21, E-22, E-23, and E-24
18 and transfer these customers onto a new time-of-use rate, E-32 TOU. APS also proposes
19 to add the month of May to the summer billing period on applicable rate schedules, add
20 the hours of 9:00 am and 10:00 am to the on-peak time period on applicable rate
21 schedules, unbundle rate E-30, unbundle and redesign rate E-32, introduce a new rate E-
22 32 TOU, modify E-32R to be consistent with E-32, unbundle rates E-34 and E-35 and
23 redesign them to provide a discount for customers who take service at transmission
24 voltage levels. APS is not proposing any changes to rate E-53, and E-54, which are used
25 in conjunction with other applicable rate schedules.
26

1 **Q. Please discuss the current rate structure of Schedule E-32.**

2 A. The rate is seasonal and consists of a monthly minimum, a demand charge, and an energy
3 charge. The calculation of the rate is complex because there are discrete charges set for
4 various combinations of demand and energy usage. The rate is structured in such a
5 manner that a customer with a higher load factor pays a lower energy charge than a
6 customer using the same amount of energy at a lower load factor. This rate structure
7 provides customers with an incentive to evenly spread out electricity use during times of
8 APS' system peak.

9
10 **Q. Please describe APS' proposed changes to E-32.**

11 A. APS is proposing to unbundle the rate based on customer metering and voltage
12 requirements. In addition, APS has broken down the rate into two usage categories:
13 monthly maximum demands of 20 kW or less and monthly maximum demands of greater
14 than 20 kW. APS has simplified the rate structure for customers with monthly maximum
15 demands of less than 20 kW by removing the demand component. In addition, for
16 customers with monthly maximum demands of 20 kW or greater, the number of blocks
17 has been reduced, a demand block has been set at 500 kW, and an energy block has been
18 set at the first 200 kWh per kW. APS has also proposed providing discounts for
19 customers taking service at Primary or Transmission voltage levels.

20
21 **Q. Please comment on the changes to E-32.**

22 A. Generally, Staff is supportive of the redesign of the rate because it has been simplified and
23 is more easily understandable. Under the proposed rate structure and proposed rates, for
24 customers with demands greater than 20 kW, the small general service and medium
25 general service customers with higher load factors generally experience less of a rate
26 increase than customers with lower load factors in the same cost of service categories. For

1 the large general service class, the customers with a load factor between approximately 25
2 and 45 percent would experience the greatest increase.

3
4 **Q. Please comment on the basic service charges for the general service schedules.**

5 A. APS has proposed increases to its general service basic service charges in varying degrees.
6 A review of Staff's cost of service illustrates that the present rates are below cost for the
7 small, medium, and large general service categories. However, Staff is opposed to an
8 increase in the general basic service charges at this time.

9
10 **Q. What does Staff recommend regarding the basic service charges for the general**
11 **service schedules.**

12 A. Staff recommends that the general service basic services charges remain at current levels.
13 However, if the revenue requirements ultimately adopted by the Commission provide for a
14 rate increase, APS should be able to increase its general service basic service charges to
15 bring them closer to cost.

16
17 **Q. What does Staff recommend in regards to APS' proposed E-32 TOU?**

18 A. Staff recommends that APS establish an on and off-peak energy component for the winter
19 billing period on E-32 TOU. In addition, Staff recommends that the winter on and off-
20 peak hours be modified to reflect the hours of actual system peak.

21
22 **Classified Rate Schedules**

23 **Q. Please summarize APS' Classified rate design proposals.**

24 A. APS is proposing to eliminate rate E-38 and E-38-8T and transfer those customers to rates
25 E-221 and E-221-8T respectively. Rate E-221 has been redesigned and simplified, and
26 rates E-47 and E-58 have been reformatted to include a menu format of lighting options.

1 **Q. Does Staff have any recommendations regarding the classified rate schedules at this**
2 **time?**

3 A. No.
4

5 **UNBUNDLED RATES**

6 **Q. Please describe the rationale for requiring unbundled rates.**

7 A. The Commission established the requirement for standard offer rates to be unbundled in
8 the electric competition rules (R14-2-1606(C)(2)). In a retail market that is open to
9 competition, unbundling the standard offer rates into their functional rate components is
10 necessary in order to send customers the price signals they need in order to evaluate
11 competitive service alternatives. Unbundled rates are also important to competitive
12 providers, because they provide the information necessary to determine whether or not it
13 would be profitable to offer their services within a specific territory.
14

15 **Q. Please identify the unbundled rate elements that APS has proposed.**

16 A. APS has broken down certain standard offer rates into the following elements: daily basic
17 service charge, metering, meter reading, billing, system benefits, transmission,
18 distribution, and generation.
19

20 **Q. Did APS adopt unbundled rate elements based on cost of service?**

21 A. No. Based on unbundled cost information provided by APS, certain rate elements deviate
22 from the rates that were generated from an unbundled cost analysis. In an ideal scenario,
23 these rate elements would directly reflect the embedded cost of providing these services.
24 However, due to certain rate design goals, some rates would need to deviate from cost.
25

1 **Q. Please comment on the generation and the distribution unbundled rate elements**
2 **proposed by APS and their relationship to cost.**

3 A. Based on APS unbundled analysis, generally the generation rates for residential rates are
4 below embedded cost and the generation rates for the general service rates are above
5 embedded cost. Generally, the distribution costs are greater than embedded cost for
6 residential rates and below embedded cost for general service rates. For its residential rate
7 schedules, APS has set the distribution rate equal for all residential service schedules.
8

9 **Q. What is the effect of adopting unbundled rate elements that do not reflect cost?**

10 A. Deviating from cost-based unbundled rate elements creates price signals that can lead to
11 uneconomic distortions in the competitive market. If the Commission wishes to facilitate
12 retail competition, an effort should be made to base unbundled rates on cost to the extent
13 possible. However, this can be difficult because the bundled rate from which the
14 unbundled rates are derived may not reflect the full cost due to rate design considerations.
15

16 **Q. Does Staff have any concerns regarding the approach APS has taken to unbundling**
17 **its rates?**

18 A. Not at this time. However, if the revenue requirements were to change significantly
19 Staff's position may change.
20

21 **FRANCHISE FEES**

22 **Q. What is a franchise fee?**

23 A. A franchise fee is implemented as part of a service agreement between local governments
24 and a utility to reimburse local governments such as municipalities or counties for use of
25 public rights-of-way and other public services. APS is assessed these fees based on its
26 gross revenues.

1 **Q. Please explain APS' proposal regarding the assessment of franchise fees.**

2 A. Currently, the franchise fee is calculated based on a statewide average of fees charged by
3 municipalities to APS. This fee is currently collected through base rates, and all
4 customers pay a uniform rate. In APS' proposal, the fees would be removed from base
5 rates, displayed as a separate line item on a customer's bill, and reflect the actual amount
6 of the fee charged to APS by the specific municipality in which a customer resides.

7
8 **Q. Does Staff agree with APS' proposal?**

9 A. Yes. Staff believes that this proposal is appropriate from a customer equity standpoint.
10 When franchise fees are included in base rates, some customers may be over or
11 underpaying their community's fees. In some instances, customers are paying fees when
12 their community does not assess them. This proposal would allow APS to match franchise
13 fee amounts to the specific communities that assess them to APS. Staff recommends that
14 APS' proposal to remove franchise fees from base rates be adopted and that such fees
15 should be listed as a separate line item on customers' bills.

16
17 **Q. Please summarize Staff's recommendations.**

18 A. 1. In order for all customer classes to benefit from the recommended overall rate decrease,
19 Staff is recommending that no customer class or subclass be assigned a revenue increase
20 or given an increase to rates.
21 2. Staff recommends that the residential class receive a 4.04 percent revenue decrease, the
22 general service class receive a 13.4 percent revenue decrease, the irrigation class receive a
23 2.19 percent decrease, and the street lighting and dusk to dawn customer classes receive a
24 1.1 percent decrease.

- 1 3. Within the residential rate class, Staff recommends that ET-1 and ECT-1R should receive
2 average decreases. E-10 and EC-1 should receive less than the average decrease and E-12
3 should receive an above average decrease.
- 4 4. Staff recommends that the categories within the general service rate class should receive
5 decreases to varying degrees. Staff recommends that the medium and extra large general
6 service classes should receive average decreases, the small general service rate class
7 should receive a greater than average decrease, and the large general service class should
8 receive less than half of the average decrease.
- 9 5. If revenue requirements result in a rate increase, Staff would recommend that the revenues
10 be allocated across the main customer classes in a more even distribution. However, Staff
11 would recommend that the Commission adopt the proportion identified in this testimony
12 for the intraclass allocation.
- 13 6. Staff recommends that APS' proposal to eliminate E-10 and EC-1 be adopted, but EC-1
14 would be phased out over a one-year timeframe consistent with the phasing out of E-10.
15 In addition, Staff recommends that APS present customers on E-10 and EC-1 with written
16 notice of its intent to cancel these rates and institute a customer education plan to inform
17 customers of alternative rate options.
- 18 7. Staff recommends approval and believes that offering additional time-of-use options to
19 APS' customers will provide customers with a greater range of time-of-use benefits and
20 provide benefit to APS by reducing its peak load. In addition, Staff recommends that APS
21 be required to file a report after three years from a decision in this proceeding that
22 evaluates the outcomes of adopting the optional-time periods. The filing should make a
23 recommendation regarding the continuation of the experimental time periods.
- 24 8. Staff recommends that APS establish an on and off-peak rate for the winter-billing period
25 on its seasonally differentiated residential and general service time-of-use rates. However,

1 Staff recommends that the winter on and off-peak hours be modified to reflect the hours of
2 actual system peak.

3 9. Staff recommends that the residential basic services charges remain at current levels or are
4 decreased to reflect cost tracking. In addition, if the revenue requirements adopted
5 provide for a rate increase, APS should not increase any one residential customer service
6 charge by more than 5 percent.

7 10. Staff recommends that the general service basic services charges remain at current levels.
8 However, if the revenue requirements adopted provide for a significant rate increase, APS
9 should increase its general service basic service charges to bring them closer to cost.

10 11. Staff recommends that APS establish an on and off-peak energy component for the winter
11 billing period on E-32 TOU. In addition, Staff recommends that the winter on and off-
12 peak hours be modified to reflect the hours of actual system peak.

13 12. Staff recommends that APS' proposal to remove franchise fees from base rates be adopted
14 and that such fees should be listed as a separate line item on customers' bills.

15

16 **Q. Does this conclude your direct testimony?**

17 **A.** Yes, it does.